

Measurement of Risk – Risk Based Capital

- Risk Based Capital (RBC)
 - Defined as an amount of capital based on an assessment of risks that an insurer should hold to protect against adverse developments
 - Often used to measure the relative financial strength of two or more companies
 - Industry standard
 - Recommended by the NAIC
 - Widely used by states for health insurance
 - Generally action taken by regulators if RBC falls below 200%
 - Given the risk profile of UHCNE, RBC of 275% is adequate (equals \$33.9 Million at 12/31/05)

Parental Guarantee – Fiscal Fitness of UnitedHealth Group

- Parent will make capital contributions if UHCNE drops below 275% RBC
- UnitedHealth Group is a *Fortune* 50 company
- A rated by top debt rating agencies (including AMBest)
- A National business scope and strategy
 - Largest national large employer market share at 22%
 - Largest Medicare Supplement market share at 25%
 - Largest prescription drug plan for seniors at ~20%
- UnitedHealth Group is a diversified organization with 6 separate segments – diversifies risk across businesses

UnitedHealthcare of New England Reinsurance Arrangements

- Commercial reinsurance arrangement with UnitedHealthcare Insurance Company
 - Quota share coinsurance arrangement
 - 60% commercial business ceded
- Medicaid reinsurance
 - Reinsurance coverage after \$300,000 in claims per member
- Reserve Cap
 - Protection if claims run-out exceeds the prior years claims reserve (unfavorable claims development)
 - Covers all lines of business

- UnitedHealthcare Insurance Company
 - National and very diversified
 - A+ rating from AMBest
 - Surplus in excess of \$1 Billion
- UnitedHealthcare of New England
 - A rating from AMBest
 - Surplus of \$74.1 Million (surplus reduced for anticipated 2005 ordinary dividends)

- Measuring risk using surplus as months of revenue
 - The Lewin Group measured UHCNE surplus as months of revenue using gross premiums
 - UHCNE believes net premium should be used so that consideration is given to risk reduction of the reinsurance agreements (as outlined with the hypothetical company)
 - UHCNE surplus as months of insured net premiums equals 2.6 months at 12/31/05 (after reducing surplus for anticipated 2005 ordinary dividend)